The Walt Disney Company
Q1 FY13 Earnings Conference Call

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Disney Speakers:

Bob Iger
Chairman and Chief Executive Officer

Jay Rasulo
Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer
Senior Vice President, Investor Relations

PRESENTATION

Operator

Welcome to The Walt Disney Company's first quarter 2013 earnings conference call. My name is Ellen and I will be your operator for today's call. (OPERATOR INSTRUCTIONS) Please note that this conference is being recorded. I will now turn the call over to Mr. Lowell Singer, Senior Vice President, Investor Relations. Mr. Singer you may begin.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Ellen, and good afternoon, everyone. Welcome to The Walt Disney Company's first-quarter 2013 earnings call. Our press release was issued about 45 minutes ago. It's available on our website at www.disney.com/investors. Today's call is being webcast, and we will post the webcast and a transcript also to our website.

Joining me in Burbank for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer; and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob will lead off, followed by Jay; and then, of course, we will leave plenty of time for your questions.

So with that, I'll turn it over to Bob and we'll get started.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Thank you, Lowell; and good afternoon, everyone.

Coming off a record year in 2012, we had a solid first quarter and are enthusiastic about the year ahead.

Now that Lucasfilm is officially part of The Walt Disney Company, we're moving forward with the extraordinary *Star Wars* franchise across our portfolio of businesses. We're excited about the tremendous potential ahead, starting with *Star Wars: Episode 7*, which we expect will be in theaters in the summer of 2015. We're particularly pleased to have J.J. Abrams directing our first feature film in that franchise. We've had a long and very successful relationship with J.J. – working with him on two popular ABC series, *Alias*, and the global phenomenon, *Lost.* We're proud to be working with him again to take the *Star Wars* franchise saga forward.

I'd also like to confirm that we are in development on a few standalone films that are not part of the *Star Wars* saga. Lawrence Kasdan, who wrote *The Empire Strikes Back* and *Return of the Jedi*, is working on one; and Simon Kinberg is working on another. And Lucasfilm will have details about these projects at a later date.

Turning to Media Networks, in the Media Networks we have now closed seven of our ten major affiliate agreements for our cable networks. Multi-channel operators clearly recognize the significant value created by our array of brands and programming – from the #1 sports brand, ESPN, to our powerhouse portfolio of kids entertainment, including Disney Channel, Disney XD, and Disney Junior, plus ABC and ABC Family.

Last year, Disney Channel took the top spot among kids 2-11 for the first time, and continued its long winning streak as the #1 network among kids and tweens in the U.S.

Disney Junior programming is also doing extremely well among preschoolers and their families who made *Doc McStuffins*, *Jake and the Never Land Pirates*, and *Mickey Mouse Clubhouse* the top three cable shows for kids 2-5. Disney Junior's animated movie, *Sofia the First: Once Upon a [Princess]*, was 2012's highest rated telecast among those young viewers, and is now a new, very popular series as well.

Anchoring the Disney Junior channel that we launched last March, these shows drive the growing popularity of Disney Junior as well as extremely high consumer demand at retail.

On the sports side, ESPN is the #1 sports brand and undisputed marketplace leader. With a 33-year head start on the competition, unprecedented sports coverage, and constant innovation in both programming and distribution, ESPN delivers incomparable value to multi-channel operators as well as consumers. And with long-term sports rights now locked in, we expect ESPN to remain the "must have" brand for sports fans.

ESPN serves sports fans nationwide – with almost 30,000 hours of live events, news, and original programming across all of its networks and services each year. Every week, more than 113 million of the estimated 230 million sports fans in America interact with ESPN for sports coverage and sports information. By contrast, emerging regional sports networks serve fans of local teams with limited programming. RSNs may compete for local market share, but ESPN offers an entirely different value proposition to sports fans and multi-channel operators. ESPN delivers almost twice the audience of all RSNs combined. And among the key sports demo of men 18-34, on average, ESPN's audience is more than four times the size of the audience of all RSNs put together.

ESPN leads in the mobile sports space as well, with sports fans spending far more time with ESPN than any other sports site – ESPN's minute share is more than three times that of the nearest competitor. Additionally, the authenticated mobile service, *WatchESPN,* is now in 46 million homes – and that number jumps to 55 million next month when new affiliate agreements take effect.

Moving on to our Parks & Resorts – I was at Walt Disney World last week to see the progress of our expansion, and I had the chance to try out our optional *MyMagic+,* which will empower our guests to get more out of their time with us and enjoy more of what we have to offer. As we roll out this new program over the next several months, Disney World guests who want a more seamless vacation experience will have the ability to plan the details of their visit ahead of time, so they can just have fun with the whole family while they're with us. The product I tested was impressive, and is a stunning example of how we are using technology to make our products and experiences more accessible and more compelling.

Also in Florida, our ongoing expansion of *Fantasyland* has been extremely well received, which is something we're quite happy about. We're well into the process of doubling its size, with spectacular new attractions based on *The Little Mermaid* and *Beauty and the Beast*, and we'll finish the *Fantasyland* expansion in 2014.

Profitability at Disney Interactive has been a goal of ours in 2013, and the solid results this quarter are certainly noteworthy. We know we have more work to do, and Disney Infinity remains a big swing factor for the year, but we've been extremely pleased by the overwhelmingly positive reaction to our announcement of this ambitious video game initiative.

With Infinity, we've created a whole new universe where players have the freedom to create stories and adventures with some of Disney and Pixar's most beloved characters for the first time ever. Our goal is to deliver an evergreen platform that can live for years to come, continually introducing new games and play sets based on our tremendous portfolio of creative content.

On the Studio side, we're pleased with the success of Disney Animation's *Wreck-It Ralph*, which has been a hit at the box office and has been recognized with a Critic's Choice award and the award from the Producers Guild of America for Excellence in Animation. *Wreck-It Ralph* is one of three Disney movies to earn Golden Globe and Oscar nominations for Best Animated Film of the year, along with *Frankenweenie* and Pixar's *Brave,* which took home the Golden Globe.

We've got a lot of great movies coming up this year. Next month, we'll release Disney's fantastical *Oz the Great and Powerful*, followed by Marvel's highly anticipated *Iron Man 3* in May. This summer, we're looking forward to Disney-Pixar's *Monsters University* in June, as well *The Lone Ranger*, an extraordinary action-adventure starring Johnny Depp, which opens in July.

In November, we've got Marvel's *Thor: The Dark World* as well as Disney Animation's next adventure, *Frozen*. And we'll close out the year with *Saving Mr. Banks*, the story behind one of our most beloved classics, *Mary Poppins*, with Tom Hanks as Walt Disney.

It's a strong, diverse slate of movies that we are very excited about.

So, overall we feel good about what we've achieved in Q1. We're confident about the year ahead, as well as our ability to create continued long-term growth.

And now I'm going to ask Jay to review the details of our Q1 performance and then we'll take your questions. Thank you.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thanks, Bob and good afternoon everyone. We are very pleased with our first quarter results, which set the stage for continued growth in 2013, following a year of record revenue, net income and earnings per share in 2012.

Our Media Networks segment grew as a result of increased operating income at Broadcasting, partially offset by a decline at Cable.

At Broadcasting, higher operating income was driven by an increase in advertising revenue and program sales, despite higher programming and production costs in the quarter. Network ad revenue increased as a result of higher rates, partially offset by lower ratings and fewer units sold, and ad revenue at our stations were up, benefiting from higher political spending. The increase in program revenue was due, in part, to sales of *Revenge* and *Once Upon a Time*.

Ad revenue at the ABC Network was up low single-digits compared to the prior year. Quarter-to-date scatter pricing at the ABC Network is running low double-digit percentage points above upfront levels. We are extremely pleased with the pace of ad sales for the February 24th Academy Awards. We are virtually sold out of our inventory with the vast majority of spots sold before Christmas. Ad revenue at the Stations was up 5% during the first quarter, and so far in Q2 TV station ad sales are pacing up versus prior year.

The decline in operating income at Cable was due to lower results at ESPN, despite strong performance from the domestic Disney Channels and ABC Family.

ESPN's results in the quarter were impacted by higher programming costs, which more than offset higher affiliate revenue. The increase in programming costs was related to higher rights fees for college football—that's new deals with the Pac-12 and the Big 12 – the NFL, and the NBA. NBA programming costs were higher compared to last year, as we returned to a normal schedule versus the prior year, which was impacted by the lockout.

Growth in affiliate revenue during the quarter was driven by both higher rates and lower revenue deferrals compared to the prior year. We deferred $36 million dollars less in revenue during Q1 as a result of two new affiliate agreements signed during the quarter, under which ESPN is no longer required to defer affiliate revenue. This change will impact ESPN's revenue recognition for the remainder of the year and we now expect ESPN to defer approximately $70 million dollars in less revenue during the second quarter than in the prior year. I'll remind you these changes in ESPN's revenue recognition related to the [elimination] of annual programming commitments have no impact on its full-year results.

ESPN's cash ad sales were up 2% in Q1, driven by higher rates and volume, but this increase was offset by lower ratings. So far this quarter, ESPN's ad sales are pacing up 7%.

While ESPN's results in this quarter were impacted by higher costs, we expect ESPN, starting in the second quarter, to benefit from several new affiliate deals, and therefore deliver attractive growth for the full year. Our confidence in ESPN's full-year performance is based on our visibility into the value and timing of new affiliate agreements, and ESPN's positive advertising trends. At the same time, Q1 programming cost growth will be the high water mark of the year.

Domestic Disney Channels grew in the quarter due to higher affiliate revenue from contractual rate increases. ABC Family's strong performance resulted from higher advertising revenue and lower marketing costs. ABC Family's ad revenue was up 15% in the quarter, and that's on top of a 10% increase in Q1 last year.

At Parks and Resorts, the investments we've made over the past couple of years to enhance the overall guest experience are resulting in increased visitation and higher spending. We expect the [financial] impact of these investments, some of which is evident in our first quarter results, to continue to ramp up over the coming quarters. In the quarter, higher operating income at our domestic operations was partially offset by lower results at our international operations.

The increase in operating income at our domestic operations was driven by higher guest spending at Walt Disney World and the Disneyland Resort and attendance growth at the Disneyland Resort. For the quarter, attendance at our domestic parks was up 4% and per capita spending was up 6% on higher ticket prices, food and beverage, and merchandise spending. Average per room spending at our domestic hotels was up 4% and occupancy was down four percentage points to 81% primarily due to an increase in available room nights at Walt Disney World given the opening of *Disney's Art of Animation Resort* during the second half of fiscal 2012.

So far this quarter, domestic resort reservations are pacing up 4% compared to prior year levels, while booked rates are up high-single digits.

Lower operating income at our international operations reflects higher costs at Disneyland Paris and expenses associated with our Shanghai Disney Resort, despite higher guest spending at Hong Kong Disneyland Resort.

Segment margins for the first quarter were adversely impacted by 60 basis points due to the growth initiatives and as a result, segment margins were down 50 basis points compared to last year. We feel very good about the underlying margin trends we are seeing in our domestic parks and resorts. While growth initiatives reduced margins by 80 basis points at Walt Disney World and Disneyland, their combined margin was still up about 100 basis points for the quarter.

Studio Entertainment operating income was down in the quarter due to declines in our home entertainment and theatrical businesses, despite an increase in television and subscription video on-demand distribution revenue. Home entertainment results faced a difficult comparison given the releases of *Cars 2* and *The Lion King* last year compared to *Brave* and *Cinderella* this year. While theatrical revenue was higher in the quarter due to the release of *Wreck-it Ralph*, *Lincoln* and *Frankenweenie*, operating income declined as a result of higher distribution and film amortization costs compared to prior year.

At Consumer Products, the increase in operating income resulted from higher performance in merchandise licensing and retail. The increase in Licensing reflects lower revenue share with the Studio compared to the prior year. On a comparable basis, earned licensing revenue was up 1% versus last year as higher sales of *Spider-Man*, *Avengers* and standard character merchandise more than made up for a decline in sales of *Cars* merchandise.

Results in our retail business was driven by higher comp store sales in Japan and growth in North America, which benefitted from higher online sales, comp store sales growth and store format changes.

At Interactive, we generated a profit of $9 million dollars in the quarter compared to a loss of 28 million dollars last year due to improved results in Games, as well as continued strength in our Japan Mobile business. Higher operating income at Games was due to a lower impact of purchase accounting compared to the prior year. While we continue to target profitability for 2013, we expect operating losses in the second quarter to be comparable to prior year given the lack of key title releases.

As we look into the second quarter, I'd like to highlight a few comparability factors that will affect our Q2 results.

At Broadcasting, we expect programming expenses to be $40 million dollars higher than the prior year.

At Parks and Resorts, I want to point out that the timing of the Easter holiday will benefit our Q2 results, as one week of the two-week holiday will fall in Q2, whereas the entire holiday period fell in Q3 last year. We estimate the impact of this one-week shift to be roughly $25 to $30 million dollars in operating income shifting to Q2 from Q3.

We continued to repurchase our stock during the first quarter by buying back 21 million shares for about $1.0 billion dollars. Fiscal year to date, we have repurchased 27.1 million shares for $1.4 billion dollars.

Overall, we feel great about the start of the fiscal year. We continue to manage our businesses with an eye towards creating long-term, sustainable value for our shareholders. We are making good progress on a number of key strategic initiatives, so as we look to the rest of 2013 and beyond, there is a lot to be excited about.

With that, I'll now turn the call over to Lowell Singer for questions.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Jay. Ellen, we are ready for the first question.

Q&A

Operator

Operator

(Operator Instructions). Ben Swinburne, Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you. Good afternoon. Jay, I wanted to ask you a little bit about the ESPN affiliate growth, or cable affiliate growth -- whatever you are more comfortable speaking to. You called out the renewals that you've got behind you and the visibility into affiliate revenue growth, so can you talk about what it was in the quarter? And then maybe any kind of guidance or expectations for the acceleration level into fiscal Q2, now that you are a month in.

And then, Bob, I wanted to ask you, you brought up the Disney Channel and some of the creative successes there. That's a pretty big business. It sort of gets lost a bit in the cable segment, but I was wondering if you could talk about how you think about financially exploiting more the products that you've got -- the shows you've got that have done so well in the past year or two into driving earnings. Because it's not obvious since there's not a huge advertising piece to that business to the rest of us.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Let me start, Ben. In terms of cable affiliate growth in the quarter, Q1, consistent with the trends that we've been seeing over the past couple of quarters, Q1 adjusted cable affiliate revenue grew high-single-digits for the quarter. And when I say adjusted, this adjusts for both the deferrals that I spoke of and for some FX that affect the quarter. I really don't want to get into looking down the road on affiliate revenues, though.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Regarding the Disney Channels -- as you know, Ben, we started off with a Disney Channel that initially began as a premium service. We grew it and we grew revenue by ultimately turning it into a basic service and improving not only the bottom line, but the visibility and the exposure to our brand and to the various intellectual property that we created on that channel.

We then relaunched a set of channels to XD, and only recently launched Junior, so if we look across the globe we now are sitting on well over 100 of these channels; some of which are advertiser supported; all of which support the brand and the intellectual property, and ultimately support our other business, particularly Consumer Products but also online, Interactive, Parks and Resorts, parts of Consumer Products like publishing, mobile apps, those sorts of things.

So, in effect, we've created a pretty broad ecosystem of product emanating from these channels. And I'd say over time -- and it'll take some time -- you'll see continued increase in revenue from higher subs, higher sub fees, higher advertising; and then, of course, all the other businesses that get ultimately the benefit of this great product.

So when we have suddenly four very popular shows with kids 2 to 5, we're already starting to see that in Consumer Products. But I think the long-term impact is really significant, because for instance, in the last go-around with our distributors, we obviously were looking to get Disney Junior penetrated. That resulted in a relatively modest sub fee structure. Over time, that sub fee structure will change dramatically, and that will start to generate a lot of revenue.

So I think it's an extremely valuable business for us. You're right, it doesn't get that much visibility, and yet it is visible to us in almost everything that we do.

Ben Swinburne – *Analyst, Morgan Stanley*

All right. Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Ben. Operator, next question, please.

Operator

Michael Nathanson, Nomura.

Michael Nathanson – *Analyst, Nomura*

Thanks. Hi. I have one housekeeping for Jay, and then a follow-up to Ben's question. So, Jay, the question is -- the Hulu charge of $55 million, that's not shown in the OI line in broadcasting. So we don't have to add back $55 million to OI there?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Right. Let me try to clarify that. The $55 million -- which was a charge that was an executive compensation charge for the Hulu team that was triggered when we bought Providence out of Hulu -- is reflected in the equity income line in the income statement, but is excluded from the segment OI.

Michael Nathanson – *Analyst, Nomura*

Okay, got that. And then let me follow up with Ben's and -- the Q came out, and it looks like in the 10Q it's saying that the rate increases you had for cable was about 7% in the quarter. So is it safe to assume that now that the new deals will kick in in the March quarter, the 7% growth rate you saw for just pricing should logically go up from there? Isn't that a logical assumption?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

We are beginning to recognize, in the second fiscal quarter, the new rates that are associated with those new deals that we've negotiated. You are right about that, at ESPN. And the rates of course, are differential across all of the ESPN channels that are out there. So, yes, I think we can expect to see an increase. I don't want to talk about how much.

Michael Nathanson – *Analyst, Nomura*

Okay. Thanks.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Michael. Operator, next question, please.

Operator

Alexia Quadrani, JPMorgan.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. Any sense on how much the new attractions or the investment that the parks are driving these strong results? And any sense in how much you think pricing can continue to climb here?

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Well, we're definitely seeing strong results in California from the rather significantly changed California Adventure. Clearly, Cars Land and the whole experience that's been created has helped, because we've had dramatic increases in attendance, occupancy, and strong pricing increases since we opened in June.

In Orlando, Fantasyland has already been a success, although it is far from complete. We are doubling the size of Fantasyland. And, in fact, the current improvements in the current expansion will not be completed until sometime in 2014, but it's already starting to work.

So we think that we've got certainly some pricing leverage from it. We found that obviously over time, when we build the right thing, not only will people come but it obviously gives us some leverage as well.

Alexia Quadrani – *Analyst, JP Morgan*

And how was attendance at Disney World in the quarter?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Attendance at Disney World was down at hair, I would say, and that -- oh, I'm sorry -- it was up a hair, but it wasn't the driver for the quarter. As Bob just said, everything that's going on at the Disneyland Resort is really what's driving the attendance trends for domestic parks.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

You also had some effect of how the holiday broke this year. First of all, the quarter ended on December 29, as opposed to December 31 of a year ago. But you also had a Christmas season or a holiday season that extended more into the second quarter, or into January, than it had the year before. So there was some shift in visitation.

Alexia Quadrani – *Analyst, JP Morgan*

So that would suggest that attendance obviously at Disney World is trending much better in the first quarter?

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Jay commented about the current trends; and, yes, the answer is yes.

Alexia Quadrani – *Analyst, JP Morgan*

Okay, thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Operator, next question, please.

Operator

Jessica Reif Cohen, Bank of America.

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

Thank you. A question on the parks, and one on cable networks. On the parks, I guess it was mostly cost-related. Could you clarify on the technology spend -- or MyMagic+ or however you want to refer to it -- how much more to go is -- the press reported it's something like $800 million to $1 billion of spend on that effort. How much more is there to go?

It sounds like the early results are positive. When does it fully roll out? And the press release called out the Shanghai operating expenses as starting to ramp. Can you give us any color on what that would look like over the course of the year?

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

The majority of the capital expense to create this initiative has already been spent. There will be some increased operating expenses, which we are already starting to see this year. But obviously they will probably ramp up more as we roll out the feature. The product itself is in a test phase. Some of it, in a very limited form, is available to our guests.

I actually tried it out last week and was extremely impressed, because it will give people an opportunity to really plan their vacation in advance of coming; notably, the ability to make reservations on some of our most popular attractions; or, more importantly, some of their favorite attractions. And that will obviously have an impact on guest experience by not only improving the number of attractions they can experience while they are there, but guaranteeing that they'll be able to see the ones or experience the ones that they want.

And additionally, the band serves as your room key. That's already somewhat operational, although in test phase. It serves as your wallet. It serves as your ticket. And it gives us the ability -- with voluntary information that you provide to us -- to enable personalization and customization, which we have not been able to do before. And that's really impressive. So I'd say you're going to see the product rollout at some point later this year. We're purposely not announcing when it will be rolled out. In effect, a lot of the features of this product will actually be rolled out over a long period of time. We want to make sure that we get this right before we go too fast with it. But so far, we're very, very excited about it.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

One thing I just wanted to add for all of you -- Jessica, as well -- is that part of the expenses that Bob talked about of course will be depreciation of the capital investment. And compared to what we usually invest in, the life on these assets, particularly on the system side, is very short. And that will impact us going forward. Did you ask about Shanghai, Jessica?

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

Yes. Because you called out in the press release the ramp.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes. So along with, of course, the capital expenditures we're doing over there, there's an increase in expenses that are accompanying that. And it's about $50 million for the fiscal year; not a huge number, but something you can put in your models.

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

And then, on the cable network deals that you signed, what's the average length of the new deals? We know the Comcast deal is 10 years, but what about the others?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

We haven't really been out there about those deals, for the confidentiality of our partners and ourselves. And they are of term, but we're not going to get into the details of each one.

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

Okay, thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Jessica. Operator, next question, please.

Operator

Doug Mitchelson, Deutsche Bank.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks so much. So, one for Bob and then one for Jay. Bob, Hulu's been losing money -- and that's despite free access to ABC and Fox and NBC content? I would think having ABC content available for free online could encourage cord-cutting over time. So the release noted that ABC grew ad revenue in part due to online growth, where I think they're actually competing with Hulu for ad dollars.

So, anyway, authentication seems to be a superior model all around. Can you help me understand the strategy for Hulu going forward, and how much more capital might have to be put in that business?

And then for Jay, there has been some discussion that ESPN's strategy in the UK is changing with the loss of the Premiere League games. Since that was a startup initiative only a few years ago, I would think it's losing money. Is there any sense of the losses or the margin on that UK operation that you can give us? And when might the improvement of those losses hit the P&L? Is that fiscal 2013, fiscal 2014? How might that flow through? Thanks.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Doug, I'm not going to address your specific question about Hulu, because they are partners, and there is a Board. And the strategy for Hulu is determined by that group. And not only am I not a member of the Board, but I'm not a spokesperson for Hulu either.

I will say that as ABC analyzes how best to not only monetize its content but to maintain the health of its broadcast business, its network, they're obviously looking at continuing to make product available in alternative forms, mobile being one, but mindful of the fact that how they move product into that marketplace, means obviously they consider a few factors.

One, the impact on advertising -- not necessarily in this order -- and two, the impact on the multichannel business and retransmission consent. So, they're working very hard at creating a WATCH app will be available to people who are subscribers to multichannel services. We're not saying when that will come out. And their windowing strategy, which is morphing, reflects a feeling that the best way to monetize content is to make it available for people who already are subscribers, and to limit the availability of the content, basically, that is in-season; and to do what it possibly can do to improve the effectiveness of advertising.

I will note that in looking at the recent C3 figures for ABC, it was interesting to see that homes with -- ABC's rating is actually higher in homes with C3 rating -- is higher in homes with DVRs, which I found quite interesting. That includes, by the way, some VOD consumption as well. And in some cases, that VOD consumption has a mechanism that disables fast-forward, which is also interesting; because consumers are clearly looking for access to shows, but are willing to tolerate some inability to skip through commercials in order to see the shows that they want to watch.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Doug, on the UK ESPN channel, you are correct in that we were experiencing losses due to the ramp-up and newness of that business for us. We talked about that on many calls. And at this point we are exploring an exit from that. But I don't really want to talk -- I don't think I've given the magnitude of those losses. And I don't think there's any point in doing it now.

I will tell you that, relative to your question about Hulu and the online revenue from broadcasting, the drivers of that were ad sales on the ABC Episode Player, as you mentioned; also Hulu ad sales; as well as ad sales from our ABC News Yahoo partnership. That was what made up the components of it.

Doug Mitchelson – *Analyst, Deutsche Bank*

Right. Thanks very much.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Doug. Operator, next question, please.

Operator

Todd Juenger, Sanford Bernstein.

Todd Juenger – *Analyst, Bernstein*

Hello. Back to the affiliate deals once more -- sorry. You mentioned having completed deals with seven of the 10 top distributors. And I think a big component of all those deals was TV Everywhere and VOD type of rights. So, turning to the three of the 10 who are still pending, I presume those guys would like to offer those services to their subscribers, too. I think two of the three big distributors without those types of rights are the satellite distributors. You can correct me if I'm wrong about that. But I wonder, is there anything about the technology of satellite distribution that stands in the way of how those services work?

And if there's any comment you could make on the status of discussion with any of those providers who are still waiting for those services, and when you think you might be able to come together on those.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Well, I'll confirm that there is a significant amount of demand for the WATCH apps that we've created, which have done quite well. And it doesn't seem to be anything from a technological perspective that would be a gating factor with the satellite providers. And, among the deals that we have not cut in terms of long-term deals, that would include access to these WATCH apps, are the two satellite providers. But nothing to say in terms of specifics regarding the status of those negotiations.

Todd Juenger – *Analyst, Bernstein*

All right, fair enough. And then one small follow-up, if you don't mind, probably for Jay. In terms of thinking about the accounting for those elements of the deals, would it be fair to -- especially for the WATCH apps that are library in nature, and sort of on-demand in nature -- does that work in a TV Everywhere context the same way it does as it does for, say, SVOD? In other words, are we looking at situations where a lot of content might be made available right away, and the revenue falls accordingly? Or is it spread differently somehow? Thanks.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

You know, Todd, the answer won't be crystal clear and probably won't be very satisfying for you. But I think the revenue from those deals, because they are wrapped up in an entire suite of services -- I've mentioned many times to all of you that the Comcast deal had 70 separate services, of which the apps were a few. I would say they are more akin to being recognized as our normal affiliate fees are being recognized. But I reserve the right to say there might be, now and again, a couple of exceptions to that. But, by and large, I think all of you should think about that as being consistent with the flows for the affiliate fees.

Todd Juenger – *Analyst, Bernstein*

All right. Thank you very much.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Todd, thanks for the questions. Operator, next question, please.

Operator

Anthony DiClemente, Barclays.

Anthony DiClemente – *Analyst, Barclays*

Thanks. Just one for Bob. Just wondering if you could talk a little bit about the pay-TV output deal that Disney signed with Netflix on an exclusive basis, Bob. Just at a high level, what got you comfortable with doing that deal from a branding perspective for Disney, in light of the potential substitution effect for kids' TV viewing? And, of course, in light of the relationships you have with your traditional multichannel distributors. Thanks.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Well, first of all, we were impressed with the platform and the user interface. So we thought, from an environment perspective, it was a perfect place for our product to be distributed. They stepped up and paid the right price, which was also extremely important. We carefully considered the impact of selling to Netflix versus a more traditional pay cable channel. We've been with Starz, as you know. We continue with Starz for a few more years -- and felt that, given the volume of product that we would flow through the Netflix deal, and given the strength of our channel programming -- notably the Disney Channel, some of the things we've talked about -- that this was not a step in the direction of encouraging people to not subscribe to multichannel services. We thought long and hard about it; talked about it at length; and believed, in the end, that this was a movie play.

There are limitations in terms of when the movies are available and how many they are, in terms of how many we make and the size of our library, and felt that it's a completely different product than Disney Channel product. And given the popularity of the shows that we have, the demand to see those shows relatively quickly remains pretty high. And we believe we'll be able to maintain that. So you have to subscribe to a multichannel service to see them.

Anthony DiClemente – *Analyst, Barclays*

Okay. Thanks a lot.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Anthony, thank you. Operator, next question, please.

Operator

Tuna Amobi, S&P Capital IQ.

Tuna Amobi – *Analyst, Standard & Poors*

Hi. Thank you very much. One for Bob and one for Jay. So, Bob, I think you alluded to, in an earlier interview today regarding *Star Wars* potential spinoff characters in addition to Episode 7, 8 and 9. That wasn't something that I've heard you talk about before, especially on the call following that announcement. So, if you can elaborate on those plans, that would be helpful. Any comment of how that might also have affected your evaluation of that transaction would be helpful.

And then, for Jay, regarding pension -- in the context of the current interest rate environment, I'm wondering if you see any potential issues with pension whether it be related to funding and free cash; or even on the expense side, as to potential impact on the Parks margins, would be helpful. Thank you.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

When we were exploring very seriously with George the acquisition of Lucasfilm, the idea of producing a few so-called standalone films that were not part of the overall saga came up. And we discussed, not in great detail, a few of the possibilities. What I confirmed today is that those possibilities are becoming more real. And there are now creative entities that are working on developing scripts for what would be those standalone films. We are not saying how many, although I did mention two creators, Simon Kinberg and Larry Kasdan, who are working on two different films.

Those two gentlemen are also working as consultants on Star Wars Episode VII with JJ Abrams and Michael Arndt. When we did the analysis of Lucasfilm, we did not place value on this activity. What we had seen was just a nascent, and the concept of creating these was a little premature. And so the valuation that we performed was all about the three so-called saga films -- 7, 8 and 9 -- and, of course, all the other businesses that flow from those.

So, this activity would be incremental to the activity that was anticipated when we announced the acquisition. And I don't have details about -- more specifics about the films themselves.

Tuna Amobi – *Analyst, Standard & Poors*

Okay, that answers my question. So, Jay?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes. Well, let me give you some background and facts to help you think about our pension. First, maybe the most important in the short term, is that we are probably looking at about a $70 million increase in pension and post-retirement medical this year, based on the decrease of the discount rate to 3.85%. It was, before, at 4.75%. We pick up about half of that in our Parks and Resorts segment, obviously, because of the size of the employee base there.

You'll remember that a couple of years ago we announced that we were implementing changes to our pension plan, that that would create total savings of between $350 million and $400 million over the next five years. We are experiencing those. And this plus $70 million is despite that, I might say. In the past couple of years we've made pretty big contributions to our pension plan, in light of this declining discount rate, as I think many companies that you read about regularly do.

This year, our contribution is targeted in the $450 million range. Haven't decided yet whether we're going to augment that. But, anyway, I think that should at least help you think about what's going on with our pension.

Tuna Amobi – *Analyst, Standard & Poors*

Okay. Very helpful. Thanks a lot.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Tuna. Operator, next question, please.

Operator

David Miller, B. Riley Caris.

David Miller, – *Analyst, B. Riley Caris*

Yes. Hey, guys. Just one question for Bob. Bob, it's been a little over 90 days since you acquired Lucasfilm. How is the integration going there? Was there a lot of duplicative functions or low-hanging fruit that you have to eliminate? I know you are hamstrung from talking about that kind of stuff on the call, but just any color on how the integration is going -- do you feel like it's fully integrated at this point? Or is there just some ways to go?

And then, as a related question, when would be the first quarter in which we would see the brand-new wave of *Star Wars* SKUs in -- obviously as a promotional mechanism for the first *Star Wars* film in 2015? Thanks very much.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Well, the integration is not all that complicated. And we are well underway in terms of not only implementing but addressing all the integration that we expect to get from this acquisition. I can't be specific with you, though. Like Marvel, Lucas used a number of third-party agents internationally to help their licensing business, or to license. And we obviously, because of our global footprint and our presence in so many markets, are seeking to ultimately eliminate all of those third parties, which was a target obviously for Marvel and for this acquisition, for so many obvious reasons. We had a very good meeting up at Lucas a couple of weeks ago with a whole group of their executives, and ours from all walks of Disney life, to explore a variety of possibilities in terms of initiatives.

I think it's safe to say that the priority of the company, meaning both entities, is to create a great film for 2015 and to do everything we can across all of our businesses to see to it that any activity that enters the marketplace between now and then is designed to help the success of that film. So, while there will probably be an array of different products that enter the marketplace as we get close to a release date, we don't have a target right now of when you would start to see those.

But there is activity across our businesses, including online and mobile apps, and television, and consumer products, and publishing, as you would expect; and Parks and Resorts, that we've been working on now for quite some time. And time will start exposing all of that to the outside world.

David Miller, – *Analyst, B. Riley Caris*

Okay, thank you very much.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Okay. Operator, next question, please.

Operator

Jason Bazinet, Citi.

Jason Bazinet – *Analyst, Citigroup*

I just have a big-picture question, maybe for Mr. Rasulo. Your earnings are at record levels, your stock is at record levels, and it seems to me that in order for investors to get excited about your stock, they're going to have to start putting a higher multiple on it.

And so I was wondering if you could summarize for us, in broad terms, over the next three years, the major swing variables -- either loss-making things that will turn into profits, or new initiatives that will come onstream -- just to make sure we're thinking about the next three years appropriately. If you could just summarize -- I think you probably have it all in your head, and I think it's an easy question, but if you could just summarize it, that would be great.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, I think there are number of things that are pretty straightforward and pretty large in magnitude. First, one that we've been talking about for a long time is the ramp-up in accretion from all of the Parks and Resorts investments that we have put in place over the last 3 to 4 years. And by the way, a couple of them will come online over the next couple of years as well.

And we've been talking for two years about launch costs and ramp-up, holding back, if you will, the contribution to OI that these projects will have. But every single one of them -- by the way, some of them are already accretive -- but every single one of them was approved on a pro forma that would quickly become accretive to OI. And I think over the next 3 to 5 years, you will see that number significantly impacting our Parks and Resorts segment. And so that would be the first big category.

We've been talking a little bit about the Lucasfilm acquisition. We're in 2013 now. 2015 should be the year that becomes accretive. It will not be surprising to me that that will start to play shortly -- starting that year and shortly thereafter, a very big role in our studio OI. That's why we made this acquisition. It's got lots and lots of stuff for it.

Remember last year we talked about the launch of *Avengers*, really being our coming out party for the Marvel acquisition, and we continue to build on those films around that, whether it's *Thor*, *Captain America*, *Iron Man* and the next *Avengers* film. And that can only be, frankly, accretive given the strength that that franchise already has in the merchandise circles around there with kids, with the success of that film. We have big expectations.

And then if we're talking about 3 to 5 years, you can't leave Shanghai Disneyland out of the picture, which will have its gigantic splash in 2015 and start to be significantly accretive from that point forward. In the rest of our businesses, we've talked at length about the knowledge that we had in doing our new affiliate deals for ESPN, of the cost base that we were going to be experiencing over a long period of time, certainly covering your 3 to 5 year horizon, and we continue to look for growth in that business, given our position and how strong a hold we have on fans in this space.

So, I think there are a lot of things that we continue to look at moving forward that will be significant additions to the growth of our company.

Jason Bazinet – *Analyst, Citigroup*

That's exactly what I was looking for. Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thank you, Jason. Operator, next question, please.

Operator

David Bank, RBC Capital Markets.

David Bank – *Analyst, RBC Capital*

Thanks. Two questions with respect to ESPN, the first one on competitive positioning. Through most of the NFL season, *Monday Night Football* ratings were somewhat weaker than we might have expected. And I think there is some discussion around how much of that had to do with weak matchups versus maybe a fatigue for football on national television platforms. There's a lot more college on than there had been historically.

How do you think -- at the end, now, in terms of reflecting on your competitive position -- how much do you think of the ratings were about more sports on other national platforms versus the matchups?

And the second question is on distribution. Historically, I think you've given the distributors a carve-out, to allow for some number of discount packages that could be sold that don't require a carriage of certain basic channels like ESPN.

So, can you talk about what percentage of the overall base you usually allow for a carve-out for, and is that percentage changing at all as you are doing some of these new deals? Thanks very much.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

I can't comment about the nature of the deals, except to say that our subs are basically flat for the last two years. Correct? So, we have not suffered an overall loss of subs, because it was perceived to be a growth of so-called “cable light” packages. And the conversations that we've had with a couple of the large cable operators very recently, they've actually suggested to us that they view these subs as saves; subs that they would lose completely, but they feel that they've been better off keeping them at the lower price. So, ultimately, they have a better opportunity to upsell them back into a broader package.

We also believe, by and large, as witnessed by the marketplace today, but we think it will last a while, people are going to gravitate to the bigger packages because there's a lot of value there. And there is a lot of can't-miss product. The other thing, obviously, we have to look at when we look at subs is not just cable -- we look across the business. So you have to include satellite and the various telco providers that have been in as well. And that's all helped us essentially maintain essentially a steady state in terms of number of subs.

Disney Channel, actually, has grown in subs fairly recently.

Regarding ESPN's NFL package, I happen to believe that the NFL is unique enough that it stands up to all the competition that is out there. And there isn't that much of a fatigue factor for sports, or a competitive factor that results in lower NFL ratings because there are so many other sports on the air.

I do believe, though, that the ratings can be very matchup-centric, in the sense that when you have games that either are not as competitive during the game or not as interesting going in, there tends just to be less interest in it. By the way, it's not just about -- people have so many different things they can do with their time today. So it's not competition from sports that I'd really consider a factor, it's just competition for peoples' time. They don't have to watch TV because they can be entertained, informed, whatever, in so many other ways.

We talk to the NFL a lot about the quality of the schedule. They've worked hard on our behalf to maintain a quality schedule. We look at the schedule when we get it every spring and figure out what are going to be the great games and which games we're a little bit worried about and so on, and try to assess the schedule. And then, you know, so many things can happen in a season -- a team can suddenly go 0 - 3 unexpected. They can lose their star player. They can lose their quarterback. All kinds of things can happen that end up out of our control.

And I'd say this year, while ESPN had some real strength in the latter part of the schedule, the beginning of the schedule turned out to be I think a little bit weaker than we anticipated that it would be.

David Bank – *Analyst, RBC Capital*

Okay, thank you very much.

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

It's still a great product for us, though, and I think it's great product for all of the television partners.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, David. Operator, we have time for one more question.

Operator

Marci Ryvicker, Wells Fargo.

Marci Ryvicker – *Analyst, Wells Fargo*

Thanks. I have two questions. The first, you mentioned that the ABC stations were pacing up in the current quarter, so wondering what's driving this strength -- if there are certain ad categories. And then the second question is on Interactive. You were slightly profitable this quarter, but that's before Infinity. So, is Infinity going to drive profitability further? Or could we see some start-up costs that would offset revenue at some point this year?

Bob Iger – *Chairman and Chief Executive Officer, The Walt Disney Company*

Well, our goal was to be profitable this year. We have taken some big steps to do that. A lot of it has to do with cost and the mix of our product. We obviously are off to a good start. It was nice to see profitability for the first time that we've been announcing these results separately. The biggest swing factor for the year, as I said in my remarks, is Infinity. If Infinity does well, it bodes very well for the bottom line for this unit. If it doesn't do well, the opposite will be the case.

Infinity's numbers really will -- in terms of positive impact, though -- really won't be felt until the third quarter. As Jay mentioned, the second quarter, because of a lack of other product and some startup costs for Infinity, we're probably going to swing to red ink in the quarter before we have a chance to turn positive again if Infinity works later in the year.

Reaction -- as I said in my remarks -- to Infinity has been fantastic. We've seen the product. By the way, when I talk about reaction, I'm talking about reaction from gamers, the people that cover the industry, and from retailers. The buy-in at retail has been very, very strong. And the commitment that we have from retail for this product is beyond what we believed it would be. And that bodes very well.

Now, the consumer has got to see the product and enjoy it for it to truly do well. But the biggest swing factor for the year is that game. And if it does well, then we're going to be extremely pleased with the results from that sector this year. Jay, you want to talk about the stations?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes. In terms of advertising -- you're right, Marci, they are pacing up. And the support has been pretty broad-based, to be honest with you. I won't single out a specific industry. But it's those categories that are typical advertisers have all stepped up equally. There's no standouts and no real laggards.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Marci.

Marci Ryvicker – *Analyst, Wells Fargo*

Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

And thanks again, everyone, for joining us today. Note, a reconciliation of non-GAAP measures that were referred to on the call to equivalent GAAP measures can be found on our website. Let me also remind you that certain statements on this call may constitute forward-looking statements under the Securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them. And we do not undertake any obligation to update these statements.

Forward-looking statements are subject to a number of risks and uncertainties. And actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our annual report on Form 10-K, and in our other filings with the Securities and Exchange Commission. This concludes today's call. Thanks, everyone, and have a great day.

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Forward-Looking Statements:
Management believes certain statements in this call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company's control, including:

- adverse weather conditions or natural disasters;
- health concerns;
- international, political, or military developments;
- technological developments; and
- changes in domestic and global economic conditions, competitive conditions and consumer preferences.

Such developments may affect travel and leisure businesses generally and may, among other things, affect:

- the performance of the Company's theatrical and home entertainment releases;
- the advertising market for broadcast and cable television programming;
- expenses of providing medical and pension benefits;
- demand for our products; and
- performance of some or all company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company's Annual Report on Form 10-K for the year ended September 29, 2012 and in subsequent reports on Form 10-Q under Item 1A, "Risk Factors".

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at www.disney.com/investors.